

Report
of the
Examination of
Racine Dental Plan Inc.
Racine, Wisconsin
As of December 31, 1998

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September 17, 1999

Honorable Connie L. O'Connell
Commissioner of Insurance
Madison, Wisconsin

Commissioner:

In accordance with your instructions, a compliance examination has been made of the affairs
and financial condition of:

RACINE DENTAL PLAN INC.
Racine, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Racine Dental Plan, Inc., was conducted in 1993 as of
December 31, 1992. The current examination covered the intervening period ending December 31, 1998,
and included a review of such 1999 transactions as deemed necessary to complete the examination.

The examination consisted of a review of all major phases of the LSHO's operations, and
included the following areas:

- History
- Management and Control
- Corporate Records
- Conflict of Interest
- Fidelity Bonds and Other Insurance
- Provider Contracts
- Territory and Plan of Operations
- Affiliated Companies
- Growth of the LSHO
- Financial Statements
- Accounts and Records
- Data Processing
- Enrollee Complaint Procedure
- Underwriting

Emphasis was placed on the audit of those areas of the LSHO's operations accorded a high priority by the examiner-in-charge when planning the examination. Special attention was given to the action taken by the LSHO to satisfy the recommendations and comments made in the previous examination report.

The section of this report titled "Summary of Current Examination Results" contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comment on the remaining areas of the LSHO's operations is contained in the examination work papers.

The LSHO is exempt from being annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code.

II. HISTORY AND PLAN OF OPERATION

The Racine Dental Plan Inc. (Plan) can be described as a group model limited service health organization (LSHO) insurer. A LSHO insurer is defined by s. 609.01 (3), Wis. Stat., as ". . . a health care plan offered by an organization established under ch. 185, 611, 613, or 614 or issued a certificate of authority under ch. 618 that makes available to its enrolled participants, in consideration for predetermined fixed payments, a limited range of health care services performed by providers selected by the organization." Under the group model, the LSHO contracts with a sponsoring clinic to provide primary and specialist services. LSHOs compete with traditional fee-for-service health care delivery.

The Plan was incorporated April 27, 1987, and commenced business April 27, 1987. Racine Dental Group, S.C. (RDG), which is under the ownership of seven dentists in the group. RDG is an accredited dental group of the Accreditation Association of Ambulatory Health Care.

The Racine Dental Plan, Inc., is a dental health insurance plan contracted by employer groups in the Racine and Kenosha area as a benefit to their employees. The Plan was developed to offer a more affordable way for Racine and Kenosha area families to meet their dental health needs.

The Plan provides dental care to its enrollees through a provider contract with RDG. A majority of the Plan's services are provided under the contract with RDG. Under the agreement with RDG, the provider agrees to offer all covered services to the Plan's subscribers. A team of

dentists and dental specialists who provide care staffs RDG in general dentistry, pediatrics, periodontics, prosthodontics, orthodontics, endodontics, and oral surgery. Covered services of the Plan are as follows:

Benefit Description	Employees Pays
• Diagnostic:	
Dental Exam	\$0
Dental X-Ray	0
• Preventive:	
Cleaning	0
Fluoride	0
• Emergency	0
• Restorative:	
Stainless Steel Crowns	0
Fillings	0 to lab fee in master contract with employer group
• Crowns & Bridges	0 to lab fee in master contract with employer group
• Prosthetics	0 to lab fee in master contract with employer group
• Endodontics:	
Root Canals	0 to lab fee in master contract with employer group
Pulpal Therapy	Same as above
• Orthodontics	Enrollee pays 50% of the first \$2,500 or amount indicated in master contract with the employer
• Oral Surgery:	
Extractions	0 to lab fee in master contract with employer group
• Out-of-area emergency	First \$25 to \$50 depending on the master contract with employer

*Maximum annual benefits vary from \$1,500 to unlimited per enrollee depending on the employer group contract

Under contract with RDG are 17 general dentists and specialists. Included in the 17 dentists are three periodontists, two oral surgeons, and one orthodontist. The Plan is designed to allow the enrollee to select the doctor of choice. In return, RDG receives 88% of gross premium received by the Plan. The Plan has several other independent dental providers under contract that provide services to certain enrollees. The independent dental providers receive a capitation fee for their services. All risk for loss is transferred to the providers.

Providers maintain, at their cost and expense, an insurance policy providing coverage for provider's general liability and professional liability in the minimum amount of \$1 million dollars per claim and \$3 million aggregate to protect provider and provider employees, agents, or representatives.

The provider accepts agreed upon service fees as payment in full for covered services and may not seek additional payments from enrolled members with the exception of applicable copayments and deductibles. The provider may not collect from an enrolled member for services rendered any amounts in excess of applicable copayments and deductibles. Either party can terminate the contract by providing at least 90 days' prior written notice to the other party that the agreement will be terminated on the anniversary date.

The Plan is authorized to do business throughout the state of Wisconsin.

The Plan currently markets only to employer groups. The Plan is marketed through three agencies and pays a 4 to 8% commission on new and renewal business.

The Plan negotiates premium rates with each employer group. Each employer group premium rates are negotiated around the services provided and area competitor rates. These rates may be adjusted to reflect the age, sex, occupation, and coverage characteristics for each group. Experience is reviewed for renewal groups, following the review process, negotiations are held with each group employer to discuss future premium rates.

The Plan has developed procedures to monitor the actions of its primary care providers. The company's peer review is conducted through a revolving schedule where two Plan dentists weekly review the services rendered by a Plan dentist to an enrollee. The results of the review are documented and kept as a permanent record in the office.

The Plan performs monthly utilization review of all employer groups under contract. As another control feature, all elective out-of-plan referral procedures must be preauthorized by a Plan dentist. Each member authorized for out-of-plan procedures is issued a card signed by a Plan dentist to present to the out-of-plan dentist. Without a preauthorized card out-of-plan services are not reimbursed.

Each enrollee may submit a written grievance to the Plan. The Plan will acknowledge the receipt of such grievance within 10 days of receipt and notify the enrollee of the results of its investigation

and of any corrective action to be taken. For further comments on the grievance procedures of the Plan see the section of this report captioned "Summary of Current Examination Results."

The company has key man insurance coverage of \$1 million on each board member as part of a disaster recovery plan. The company asserts that the information systems for the Plan are Y2K compliant.

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of seven members. All directors are elected annually to serve a one-year term. Officers for the board are elected at the board's annual meeting. Members of the company's board of directors are also members of the board of directors of the holding company group. The board members currently receive no compensation. For further comments about the elections and appointment of officers see the section of this report captioned "Summary of Currents Examination Results."

Currently the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
Richard Plamer Racine, WI	Dentist	2000
Thomas Linstroth Racine, WI	Dentist	2000
Curtis Cruthers Burlington, WI	Dentist	2000
Richard Donovan Racine, WI	Dentist	2000
Jerome Oksiuta Franksville, WI	Dentist	2000
Earl Newton Antioch, IL	Dentist	2000
Derf Simes Racine, W	Dentist	2000

Officers of the LSHO

The officers appointed by the board of directors and serving at the time of this examination are as follows:

Name	Office	Compensation
Curtis W. Cruthers	President	\$0
Earl L. Newton	Vice President	0
Derf A. Simes	Secretary/Treasurer	0

The officers receive no compensation for their duties within the affiliated relationship of RDG and the Plan.

Committees of the Board

The Plan's bylaws allow for the formation of certain committees by the board of directors. The committees at the time of the examination are listed below:

Peer Review Committee	Executive Committee
Thomas Lindstroth, Chair	Curtis Cruthers, Chair
Jerome Oksiuta	Earl Newton
Derf Simes	Derf Simes

*For further comments on committees of the board see the section of this report captioned "Summary of Current Examination Results."

The LSHO has no employees. Necessary staff is provided through an administrative services and management agreement with RDG. Under the agreement, effective April 21, 1987, RDG agrees to negotiate employer, provider, subscriber, and other contracts; advises the board; maintain accounting and financial records; recruits marketing, utilization review, and claims processing personnel; provides or contracts for claims processing, and MIS. RDG receives a fixed percentage of gross written premium of the Plan for compensation for services rendered. The term of the agreement is continuous. The LSHO may terminate the agreement upon 30 days' written notice. For further comments on the administrative services and management agreement see the section of this report captioned "Summary of Current Examination Results."

Financial Requirements

The financial requirements for an LSHO under s. Ins 3.52, Wis. Adm. Code, are as follows:

Amount Required	
1. Minimum capital or permanent surplus	Not less than \$75,000
2. Security deposit	Each LSHO is required to maintain a deposit of securities with the state treasurer or an acceptable letter of credit on file with the Commissioner's office. The amount of the deposit or letter of credit shall not be less than \$75,000. The letter of credit must be payable to the Commissioner whenever liquidation or rehabilitation proceedings are initiated against the LSHO.
3. Compulsory surplus	Not less than the greater of: 3% of the premiums earned by the LSHO in the previous 12 months or \$75,000 The Commissioner may accept the deposit or letter of credit under par. 2. to satisfy the compulsory surplus requirement if the LSHO

demonstrates to the satisfaction of the Commissioner that all risk for loss has been transferred to the providers.

4. Security surplus

The LSHO should maintain a security surplus to provide an ample margin of safety and clearly assure a sound operation. The security surplus should not be less than 110% of compulsory surplus.

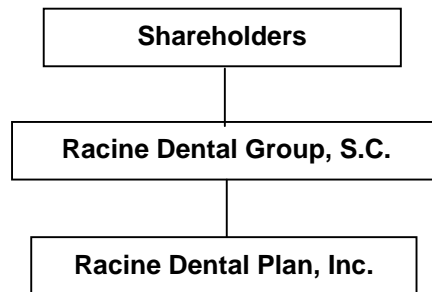
5. Operating funds

Funds sufficient to finance any operating deficits in the business and to prevent impairment of the insurer's initial capital or permanent surplus or its compulsory surplus.

IV. AFFILIATED COMPANIES

Racine Dental Plan Inc. is a member of a holding company system. Its ultimate parent is Racine Dental Group, S.C. (RDG). The organizational chart below depicts the relationships among the affiliates in the group.

**Holding Company Chart
As of December 31, 1998**



Racine Dental Group, S.C.

RDG provides dental services to Racine and Kenosha area residents and employer groups. As of the fiscal year ending September 30, 1999, the company's unaudited financial statement reported assets of \$798,593, liabilities of \$615,611, and stockholders' equity of \$182,982. Operations for 1999 produced net income of \$0.

V. FINANCIAL DATA

The following financial statements reflect the financial condition of the LSHO as reported in the December 31, 1998, annual statement to the Commissioner of Insurance. Also included in this section are schedules which reflect the growth of the LSHO for the period under examination.

Racine Dental Plan Inc. Assets, Liabilities and Net Worth As of December 31, 1998

Current Assets:

Cash	\$2,359	
Organizational expense	370	
Allowance for amortization	<u>(370)</u>	
Total current assets		\$2,359

Other Assets:

Total other assets		0
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Property and Equipment--Net:

Total property and equipment		<u>0</u>
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Total assets		<u>\$2,359</u>
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Total liabilities:		0
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Net Worth:

Paid-in surplus	\$ 7,140	
Contributed capital	800	
Retained earnings/fund balance	<u>(5,581)</u>	
Total net worth		<u>2,359</u>

Total liabilities and net worth		<u>\$2,359</u>
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**Racine Dental Plan Inc.
Statement of Revenue and Expenses
For the Year 1998**

Revenues

Premium	\$639,435	
Interest income	<u>2,034</u>	
Total revenue		<u>\$641,469</u>

Provider Expenses

Professional services	<u>302,686</u>	
Total provider expenses		<u>302,686</u>

Administrative Expenses:

Administrative expenses	<u>338,840</u>	
Total administrative expenses		<u>338,840</u>

Total expenses		<u>641,525</u>
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Net loss		<u>\$ (56)</u>
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**Racine Dental Plan, Inc.
Statement of Net Worth
As of December 31, 1998**

Net worth, beginning of year	\$ 2,415
Net income (loss)	<u>(56)</u>
Net worth, end of year	<u>\$ 2,359</u>

Growth of LSHO

The following schedules reflect the growth of the LSHO during the examination period:

Year	Assets	Liabilities	Net Worth	Premium Earned	Medical Expenses Incurred	Net Income
1993	\$2,415	\$0	\$2,415	\$252,194	\$221,234	\$0
1994	2,415	0	2,415	253,348	206,758	0
1995	2,415	0	2,415	284,720	137,884	0
1996	2,415	0	2,415	349,620	130,574	0
1997	2,415	0	2,415	556,369	141,489	0
1998	2,359	0	2,359	639,435	302,686	(56)

Enrollment for the years under examination:

Year	Members
1993	2,236
1994	5,148
1995	5,633
1996	2,156
1997	3,311
1998	3,726

Reconciliation of Net Worth per Examination

The current examination resulted in no adjustments to surplus or reclassification of balance sheet amounts.

VI. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were eleven specific comments and recommendations in the previous examination report. Comments and recommendations contained in the last examination report and actions taken by the LSHO are as follows:

1. Accounts and Records – It is recommended that the Plan file biographical sketches of its officers and directors as specified by s. Ins 6.52, Wis. Adm. Code.

Action – Compliance

2. Accounts and Records – It is recommended that the Plan implement procedures to provide for monthly updating and maintenance of its general ledger, general journal, cash receipts and disbursements records pursuant to s. 601.42, Wis. Stat., and maintain all accounting records in its office.

Action – Compliance

3. Accounts and Records – It is recommended that the Plan maintain its cash receipts journal on an actual cash basis.

Action – Compliance

4. Conflict of Interest – It is recommended that the Plan establish a procedure to disclose potential conflicts of interest annually.

Action – Noncompliance

5. Corporate Records – It is recommended that the Plan abide by the bylaws and require that terms of the directors be three years and that terms be staggered.

Action – Noncompliance

6. Corporate Records – It is recommended that the Plan either appoint members to these committees and maintain records of the minutes of the meetings or amend the bylaws according to the needs of the Plan.

Action - Noncompliance

7. Contracts – It is recommended that the Plan implement procedures to ensure that contracts are current and fully executed, signed, and dated.

Action – Noncompliance

8. Contracts – It is recommended that the Plan procure and maintain comprehensive general liability and professional liability insurance coverage as specified in the provider contract.

Action – Noncompliance

9. Contracts – It is recommended that the Plan amend the commission agreement so as to make the agency and RDG the parties to this agreement. It will then be the responsibility of the administrator to ensure proper payment of the commissions.

Action – Compliance

10. Cash – It is recommended that the Plan reconcile all bank accounts on a monthly basis.

Action - Compliance

11. Cash – It is recommended that the Plan require the signature of two officers, directors, or other responsible persons associated with the Plan on all checks in excess of a specified amount.

Action – Noncompliance. The Plan does not require two signatures on any checks. Checks can only be signed by any board member of any amount. The “manager” no longer signs the checks as it was in the past. See the section of this report captioned “Summary of Current Examinations Results” for further comments.

Summary of Current Examination Results

Management and Corporate Control

In accordance with Wisconsin Statutes, the Plan is required to keep as permanent records minutes of all meetings of its board of directors, a record of all actions taken by the board without a meeting, and a record of all actions taken by the committees of the board. No written record of the board or committee actions taken in meetings or without meetings were available for the examiners to review. The bylaws of the company outline the principal duties of the secretary of the Plan, one of which is to keep a record of actions taken in board meeting. Another duty of the board is to appoint or elect officers, board members, and committees. The Plan's bylaws indicate a Dental Director is to be appointed by the board. The board since the Plan's inception has made no appointment of a dental director. It is recommended that the company keep a written record of all board and committee actions in accordance to the Plan's bylaws and pursuant to s.181.1601, Wis. Stat., or amend its bylaws in accordance to the needs of the Plan.

Pursuant to a directive of the Commissioner of Insurance, each company is required to establish a procedure for disclosure of any material interest or affiliation on the part of its officers, directors, or key employees that may conflict or is likely to conflict with the official duties of such person. A part of this procedure is the annual completion of a conflict of interest form by the appropriate person. The Plan has failed to adopt such annual procedures for disclosing potential conflicts of interest. It is again recommended that the Plan adopt an annual procedure for disclosing potential conflicts of interest of all officers, board members or key employees.

Pursuant to s. Ins 40, Wis. Adm. Code, a holding company system is defined as, ". . . two or more persons who are affiliates, one or more of which is an insurer." Pursuant to chapter 600 Wisconsin Statutes, an "affiliate of a person means any other person who controls, is controlled by, or is under common control with, the first person. A corporation is an affiliate of another corporation, regardless of ownership, if substantially the same group of persons manage the two corporations." The Plan's relationship with RDG, a noninsurer, and the Plan status as an insurer meet the above definitions of an insurance holding company system. It is recommended that the company or its affiliate annually file an

insurance holding company system annual registration statement pursuant to s. Ins 40.03, Wis. Adm. Code.

The examiner's review of the Plan's insurance coverage failed to indicate that the Plan has any type of professional liability coverage for its directors and officers. It is recommended that the company obtains and maintains some type of indemnification coverage for its officers and directors.

Service Agreements

The examiner's review of the administrative services and management agreement between the Plan and RDG stipulated that the effective date of the contract was March 13, 1987, and effective for three years from date of signing. No amendment was made extending the term of the contract. However, it could be considered an implied contract as both parties are operating as if the contract continues to be in force. It is recommended that the Plan amend the agreement to include a clause that makes the agreement automatically renewable each year in order to meet the definition of an executable contract.

Further review of the company's agreements, specifically the provider service agreement with RDG, indicated an attachment A, for covered services, and attachment B, for payment of services, neither of these attachments were addressed completely in the agreement. Attachment A was not affixed to the agreement while attachment B did not disclose the monthly capitation rate. It is recommended that the Plan completely disclose in the provider service agreement with affiliate, RDG, all covered services and monthly capitation compensation in accordance with the provisions of the agreement.

Grievance Procedures

Grievance procedures of the Plan are outlined in the master contracts with employer groups and describe actions that the enrollee is to follow to file a formal written grievance with the Plan. Pursuant to the Wisconsin Administrative Code-Commissioner of Insurance, the Plan's grievance procedures are not in compliance to the steps outlined in the code. The master contract defines what a grievance is and that the Plan shall acknowledge the receipt of such grievance within 10 ten days. Not described in the Plan's grievance procedures outlined in the master contracts with member groups are the following additional grievance steps:

1. Each time the LSHO denies a claim or benefit, the LSHO should notify the affected enrollee of the right to file a grievance and the procedure to follow.
2. The LSHO shall resolve the complaint within a 30-calendar day period of receipt. If the LSHO is unable to resolve complaint within a 30-calendar day period, the time may be extended to an additional 30-calendar day period, if the LSHO notifies, in writing, the enrollee who filed the complaint that the LSHO has not resolved the complaint and the reason why additional time is needed.
3. A method whereby the enrollee has the right to appear in person before a grievance committee to present written or oral information and to question those people responsible for making the determination which resulted in the grievance. The LSHO shall inform the enrollee in writing of the time and place of the meeting at least seven-calendar days before the meeting.
4. A grievance procedure for urgent care situations. This grievance procedure shall require the LSHO to resolve an urgent care situation within four business days of receiving the grievance.

It is recommended that the company incorporate complete grievance procedure steps in its master contracts with employer groups pursuant to s. Ins 3.52 (10), Wis. Adm. Code.

Cash Disbursements

Currently, the Plan requires the signature of only one director on all checks. One signature can be any director's signature. No established disbursement amount is in place for the requirement of two signatures. This is a weak internal control procedure. To ensure more effective control over cash disbursements, the Plan's board should establish a threshold amount for checks requiring two signatures, by either two officers, two directors, or one officer and a key Plan employee. This procedure would provide for a more secure environment to make cash disbursements. It is again recommended that the Plan require, by resolution of the board, a specified amount for signing checks that would require two signatures, in order to ensure a more secure atmosphere for cash disbursements.

VII. CONCLUSION

The examination resulted in no adjustments to net worth. Several recommendations regarding management and corporate control were made in the report. The Plan's enrollment has increased over one hundred percent since the last examination from 1,618 to 3,726 enrollees.

Overall, the board is not abiding by its present by-laws and is not complying with their duties in the management of the Plan. For example, the board of directors is not complying with its bylaws for the appointment of officers and the election of directors. No written record of board minutes is kept as a permanent record by the Plan. Full disclosure of attachments to a provider agreement, regarding compensation and covered services were not available for the examiner's review. The Plan's board and key officers are not annually completing a conflict of interest form in compliance with a directive of the Commissioner. Many of the recommendations that resulted from the previous examination were again repeated.

VIII. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 17 - **Management and Corporate Control** — It is recommended that the company keep a written record of all board and committee actions in accordance to the Plan's bylaws and pursuant to s.181.1601, Wis. Stat., or amend its bylaws in accordance to the needs of the Plan.
2. Page 17 - **Management and Corporate Control** — It is again recommended that the Plan adopt an annual procedure for disclosing potential conflicts of interest of all officers, board members, or key employees.
3. Page 17 - **Management and Corporate Control** — It is recommended that the company or its affiliate annually file an "insurance holding company system annual registration statement" pursuant to s. Ins 40.03, Wis. Adm. Code.
4. Page 18 - **Management and Corporate Control** — It is recommended that the company obtains and maintains some type of indemnification coverage for its officers and directors.
5. Page 18 - **Service Agreements** — It is recommended that the Plan amend the agreement to include a clause that makes the agreement automatically renewable each year in order to meet the definitions of an executable contract.
6. Page 18 - **Service Agreements** — It is recommended that the Plan completely disclose in the provider service agreement with affiliate, RDG, all covered services and monthly capitation compensation in accordance with the provisions of the agreement.
7. Page 19 - **Grievance Procedures** — It is recommended that the company incorporate complete grievance procedure steps in its master contracts with employer groups pursuant to s. Ins 3.52 (10), Wis. Adm. Code.
8. Page 20 - **Cash Disbursements** — It is again recommended that the Plan require, by resolution of the board, a specified amount for signing checks that would require two signatures, in order to ensure a more secure atmosphere for cash disbursements.

IX. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the LSHO is acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, state of Wisconsin, participated in the examination:

Name	Title
Mary C. Hynes	Insurance Examiner

Respectfully submitted,

Richard Fluhr, CFE